

CalPERS THREE-YEAR BUSINESS PLAN

2008-09 THROUGH 2010-11

September 16, 2008





CalPERS Three-Year Business Plan 2008-09 through 2010-11

CalPERS is known for being a leader in the Pension Benefit industry.

Receiving long-term strategic direction from the Board of Administration and managed by a 13-person Executive Team, CalPERS has made great strides in how it delivers quality services, contracts for benefits and provides members benefits and products. Developing a vision from Board perspective and a road map from Executive planning, CalPERS developed two key documents, the CalPERS Strategic Plan and the Three-Year Business Plan. The Three-Year Business Plan is, in part, what assists CalPERS with capacity planning to deliver quality benefits and services. The CalPERS Annual Plan, or Operational Plan, which is in part derived from the Three-Year Business Plan, outlines the organization's current year objectives as a companion document to the current year budget prepared and presented to the Board of Administration annually.



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ENTERPRISE

I. **Exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.**

Statement of Intent: Fundamental to its mission is CalPERS fiduciary role as a trustee. Implicit in this fiduciary responsibility is the duty to ensure that the beneficiaries of the trust receive the future pension and health benefits for which they have contracted. By the very nature of its size and scope, and given the nature of emerging global economic relationships, CalPERS will look to a longer-term horizon with regard to its portfolio and investment policies. CalPERS also recognizes that the emerging social, political, and economic market dynamics impacting the system extend beyond California. This will require the exercise of strong global leadership on the part of CalPERS to effectively respond and to fulfill its fiduciary responsibilities.

Objective 1.3 – By July 1, 2008, complete the development of a Health Information Technology strategy to achieve universal electronic data exchange amongst and within all CalPERS health plans within three years.

Objective 1.4 – By July 1, 2008, develop criteria for a Health Value Index to identify and evaluate promising health care innovations with potential to improve quality and lower costs for our members.

Objective 1.5 – By July 1, 2008, complete development of a strategy enabling public employers to address other post-employment benefit obligations.

- **Objective 1.5: Completed July 1, 2008** –*The California Employers' Retiree Benefit Trust was established in March of 2007. Currently, nearly 100 public agencies are participating in the program, and interest is continuing to grow. The required strategy was developed and included several significant activities that have also been implemented.*

For example, work was completed to identify the most significant needs of employers regarding post-retirement benefits (such as attractive return vs. risk, program education, and assistance in measuring OPEB liabilities, and an administratively simple program). In addition, CalPERS sponsored legislation and obtained legal authority to provide these services to all public employers.

Objective 1.6 – By July 1, 2010, implement applicable recommendations and new legislation resulting from the Post-Employment Benefits Commission's findings.

Objective 1.7 – By June 30, 2011, establish the infrastructure needed to administer a comprehensive other post-employment benefit obligation program, including needed legislation, program policies, investment vehicles, and administrative capacity.



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ENTERPRISE

II. **Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability.**

Statement of Intent: The strategic plan sets forth CalPERS internal core values and guiding principles. As CalPERS charts its future course, it reaffirms its commitment to these values and principles. Further, CalPERS highlights the importance of diversity as a fundamental business philosophy.

Objective 2.5 – By July 1, 2008, implement a recruitment and retention strategy including effectiveness measures that ensure competence and diversity of staff.

- **Objective 2.5: Completed July 1, 2008** – *A recruitment and retention strategy has been developed that includes numerous recruitment activities, such as ongoing partnerships with colleges, local governments, and other State agencies; participation in public recruitment events; and evaluation of online employment applications. Retention strategies include implementation of employee enrichment activities (health-related programs, personal safety workshops, recognition programs, etc.).*

Competence strategies implemented include development of new hiring tools; manager training to assist staff with upward mobility; launch of the CalPERS Career Planning Center; and a new employee on-boarding tool. Completed diversity strategies include expanded diversity training for staff and management; targeting diverse candidate pools with special advertising; and participating in recruitment events for specific diversity organizations.

Objective 2.6 – By December 31, 2008, establish a comprehensive enterprise wide diversity awareness baseline.

Objective 2.7 – By December 31, 2010, develop and implement a comprehensive enterprise wide diversity strategy to increase employee awareness by 5 percent over baseline established in 2008.

Objective 2.8 – By December 31, 2008, develop and implement a comprehensive diversity strategy that is integral to our external programs and that seeks to take advantage of all the skills, talents, and opportunities within the marketplace.

Objective 2.9 – By December 31, 2009, sustain the current level of overall employee satisfaction achieved in the 2007 employee opinion survey.

ENTERPRISE

III. **Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies.**

Statement of Intent: A variety of support strategies will be implemented for CalPERS business owners to achieve their strategic goals. However, even with continuing fiscal constraints, continued investment in these support strategies will be necessary to expand organizational capacity and to ensure the most effective and efficient use of resources.

Objective 3.2 – By December 31, 2008, all managers will know of and have the opportunity to participate in the Succession Planning Framework to sustain current leadership, develop new leaders, and maintain the intellectual and human capital of CalPERS.

Objective 3.3 – By December 31, 2010, integrate a proven change management methodology into the CalPERS culture for future projects and initiatives.

IV. **Design and develop education and communication initiatives to ensure broad member and stakeholder understanding of CalPERS value.**

Statement of Intent: CalPERS operates in a complex political environment in which diverse ideological issues and agendas can make it challenging for trustors, beneficiaries, and other stakeholders to come together around common interests. CalPERS will communicate with and educate the public, employers, members, and other stakeholders to ensure they have a clear understanding of CalPERS roles, fiduciary duties, and value proposition necessary to navigate the complex political environment.

Objective 4.1 – By December 31, 2009, 75 percent of the members and stakeholders surveyed will rate the value of CalPERS as good to excellent.

Objective 4.2 – By December 31, 2010, fully implement a statewide education and outreach program targeted to policymakers and public officials to enhance and strengthen the understanding of CalPERS value in California.



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PENSION

V. **Provide sustainable pension benefit products and services responsive to and valued by members, employers, and stakeholders.**

Statement of Intent: CalPERS is the trustee of a public pension trust. This goal acknowledges the interrelationship of the other parties to the trust, namely the trustors and beneficiaries. The trustors include the Legislative and Executive Branches of the State Government, the taxpayers of the State of California, and local employers. The beneficiaries include both active and retired members as well as their families. CalPERS will fully consider all of these interests which include the affordability and adequacy of its products, benefits, and services. Since CalPERS' role goes beyond that of an administrator, we will use our expertise to serve as a trusted advisor by recommending policy alternatives for consideration to all parties of the trust.

Objective 5.1 – By December 31, 2008, establish a Board approved methodology for our employers, members and their representatives, and stakeholders to use when designing and selecting benefits.

Objective 5.2 – By December 31, 2009, develop a plan for Board approval to administer product and service offerings for stakeholders.

VI. **Administer pension benefit services in a customer oriented and cost effective manner.**

Statement of Intent: In our current strategic plan, customer service is a focal point and CalPERS remains committed to customer service. We also recognize that in an era of tight fiscal constraints and increased public scrutiny, we will strengthen our efforts to deliver our services in a cost effective manner.

Objective 6.2 – By July 1, 2008, implement at least three (3) of the Customer Services Initiatives as outlined in the Customer Service Plan.

- **Objective 6.2: Completed July 1, 2008** – *The Customer Service Experience enterprise team identified 26 areas for expanded online member and employer products and services. While many were postponed to wait for advanced PSR technologies, several new online tools have been implemented. The most significant implementations were the launch of both my|CalPERS and the Customer Education Center. These services expand online access to member information and online member and employer classes. Other online service debuts include the ability to check disability retirement application status, the option to select electronic annual member statements, a new retirement estimate calculator for Judges' Retirement System members, and information security enhancements.*



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PENSION

Objective 6.3 – By July 1, 2008, establish target customer service and satisfaction levels for members and employers.

- **Objective 6.3: Completed July 1, 2008** – Several target customer service and satisfaction level measures have been established for members and employers, which are reported to the Board each quarter at the Benefits and Program Administration Committee. They include metrics on service credit requests; speed of payments and claims processing; call center times; overall satisfaction with the Interactive Voice Response system and phone agent service; and others.

In addition, implementation of a strategy to improve the process for escalating and monitoring customer calls from the call centers to program areas, as well as enhancements to cross-divisional interaction to reduce inquiry response time is underway. Starting in June 2009, the second phase of the strategy will create measures to validate effectiveness of these improvements.

Objective 6.4 – By December 31, 2008, establish target per unit pension transaction costs.

Objective 6.5 – By July 1, 2009, increase the number of members using CalPERS self-service tools by 50 percent over 06/07 baseline.

Objective 6.6 – By June 30, 2011, refine target customer service and satisfaction levels for members and employers.

Objective 6.7 – By June 30, 2011, refine target per unit pension transaction costs.

VII. **Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement future.**

Statement of Intent: Analysis of various market dynamics, including changing demographics, indicates that there are increasing long-term retirement security concerns independent of the adequacy of pension benefits. These concerns are driven in part by the growing gap between healthcare costs and benefit coverage and a lack of personal savings on the part of beneficiaries. As a fiduciary on behalf of its beneficiaries, CalPERS will share its expertise and take appropriate steps to improve the long term viability and financial security of its members' future retirement including member education and other strategies.

Objective 7.1 – By July 1, 2009, increase the number of members using retirement and financial planning tools offered by CalPERS to make informed decisions regarding their retirement by 50 percent over 05/06 baseline.



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ASSET AND LIABILITY MANAGEMENT

VIII. **Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.**

Statement of Intent: Long-term state and local fiscal constraints and desires for improved contribution rate predictability, coupled with changing investment return/risk expectations, impact the range of options available for addressing CalPERS employer and member needs. The need to prudently manage risk and return provides the context for CalPERS asset allocation and management of its liabilities.

Objective 8.1 – By July 1, 2008, establish a Board approved asset allocation policy and actuarial methodologies that, in light of the primary goal to achieve fully-funded status, strikes a balance between expected average annual employer contribution rates and stable expected average annual changes in employer contribution rates.

- **Objective 8.1: Completed July 1, 2008** – *In November 2007, the Board participated in the Asset Allocation Workshop where a new asset allocation strategy was developed. This strategy was approved at the December 2007 Board meeting. The new allocation included the addition of an inflation-linked asset class which allows CalPERS to participate in investment opportunities in infrastructure, commodities, inflation-linked bonds, and forestland. Implementation of the new allocation is currently being implemented by the Investment Office. Of the four asset allocation components, the final and most recent Board-approved policy was related to infrastructure. Provisions of the policy allow for the allocation of up to 5 percent of total CalPERS market assets to both public and private infrastructure through 2010.*

Objective 8.2 – By June 30, 2011, establish a Board approved asset allocation policy and actuarial methodologies that, in light of the primary goal to achieve fully-funded status, strikes a balance between expected average annual employer contribution rates and stable expected average annual changes in employer contribution rates.



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ASSET AND LIABILITY MANAGEMENT

IX. **Achieve long-term, sustainable, risk adjusted returns.**

Statement of Intent: Global macro-economic relationships are changing leading to increasing uncertainty in long-term investment return/risk expectations. Given the scope of CalPERS portfolio, capacity constraints will apply. Therefore, CalPERS will approach its asset allocation strategies as a large institutional investor with a view to the long-term, a commitment to professional competency, and continued emphasis on carefully weighing risk and return. Thinking creatively with respect to new investment opportunities and ensuring the sustainability of the portfolio returns are the keys to CalPERS successfully fulfilling its future liabilities.

Objective 9.1 – By December 31, 2008, identify and implement new investment strategies and opportunities to enhance long-term, sustainable returns and provide the Investment Committee with a report documenting their value added and cost effectiveness.

Objective 9.2 – By December 31, 2008, execute the Board approved strategic initiatives to improve transparency, shareowner rights, and board accountability, including shareowner access to proxy, executive compensation practices, environmental disclosure, and majority vote standards.

Objective 9.3 – By December 31, 2008, develop and implement a comprehensive diversity strategy that is integral to our investment program and that seeks to take advantage of all the skills, talents, and opportunities within the marketplace.

HEALTH

X. Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

Statement of Intent: This goal parallels Goal V in the Pension area. Enrollees and employers contract with CalPERS for health benefit products. CalPERS health benefit products will address our customers' needs for affordable and adequate products. For employers, adequacy and affordability may be defined in terms of the total compensation package they need to offer in order to attract and retain employees. For enrollees, adequacy may be defined in terms of choice among different benefit products that address their economic and personal health care situation. Unlike the Pension area, CalPERS is charged with developing and designing the health benefit products it offers to its customers. Further, these health benefit products are offered in a competitive marketplace where alternative health benefit products exist.

Objective 10.1 – By December 31, 2009, increase the number of contracting agency new total covered lives in CalPERS Health Benefits Program by 8 percent over the 2006 baseline.

Objective 10.2 – Annually maintain the number of contracting agencies at or above 98 percent of 2006 levels.

Objective 10.3 – By December 31, 2009, maintain an average annual Health Maintenance Organization (HMO) cost trend lower than comparable large health care purchasers.

Objective 10.4 – By December 31, 2009, 90 percent of members surveyed rate the value of CalPERS Health Benefits Program in the survey's top two ratings.

Objective 10.5 – By December 31, 2010, 90 percent of employers surveyed rate the value of CalPERS Health Benefits Program in the survey's top two ratings.



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HEALTH

XI. Promote the ability of members and employers to make informed decisions resulting in improved lifestyle choices and health outcomes.

Statement of Intent: Goals XI and XII reinforce that in all three business lines, there is an imperative to consider strategies that look at both supply and demand market dynamics. Goal XI focuses on the demand side of the equation. The aging CalPERS population, which faces many chronic health conditions, will continue to drive utilization. CalPERS will develop programs and policies that will educate and provide incentives for enrollees and employers to do more to consider the value (both quality and cost) of lifestyle and healthcare choices.

Objective 11.2 – By December 31, 2009, increase the number of surveyed members making a healthy lifestyle change by 5 percent over the 2006 survey baseline.

Objective 11.3 – By December 31, 2009, 20 percent of surveyed members with chronic diseases successfully self-manage their disease.

Objective 11.4 – By July 1, 2009, all CalPERS contracting health plans will implement an incentive program that is consistent with the overall CalPERS health management strategy to encourage members to make healthier lifestyle choices.

Objective 11.5 – By December 31, 2011, increase the number of employers who proactively promote employee participation in healthy lifestyle incentive programs by 10 percent over the 2008 survey baseline.

XII. Engage and influence the healthcare marketplace to provide medical care that optimizes quality, access, and cost.

Statement of Intent: This goal focuses on the supply side of the equation. In 2003, CalPERS identified several policy imperatives for its Health Benefit Program. Cost, quality, and access were key factors in all health benefit policy strategies. CalPERS recognized that to achieve lower cost, higher quality, and improved access, it needs to focus its attention on healthcare providers, including hospitals, pharmaceutical companies, and physicians. CalPERS remains committed to strategies that impact the drivers of healthcare cost and quality within the provider community.

Objective 12.1 – By December 31, 2008, consistent with the CalPERS “Partnership for Change,” maintain publicly available standardized hospital quality and cost efficiency data to help members make informed health care decisions.

Objective 12.2 – By December 31, 2008, increase the number of purchaser covered lives (i.e., number of covered lives represented by the organizations in the Partnership) endorsing the CalPERS “Partnership for Change” to 6 million.